Michigan Deptartment of Treasury
496 (2-04)
Auditing Procedures Report

59-2030

RECEIVED DEPT. OF TREASURY DEU 2 7 2004

ssued under P	.A. 2 of 196	38, as	amend	led.		·	<u> </u>		County	INAMGE DIV.
Local Govern	nent Type	ship		Village	Other	CITY OF S			MONTCA	LM
Audit Date 6/30/04				Opinion Da 9/14/04	,		Date Accountant Report Submit 12/15/04			
accordance	with the	e St	ateme	ents of th	ie Govern	mental Accou	government and rendered unting Standards Board (ant in Michigan by the Mich	GASB) and the	Unitotti Nepol	nts prepared in ting Format fo
We affirm t		iad v	vith th	e Rulletin	for the Au	udits of Local U	Units of Government in Mic	higan as revised		
						to practice in		-		
	affirm the	e follo	owing	. "Yes" re			closed in the financial state	ments, including	the notes, or in	the report of
You must ch	neck the									
Yes [√ No	1.	Certa	ain compo	nent units/	/funds/agencie	es of the local unit are excl	uded from the fir	nancial stateme	nts.
Yes [√ No	2.		e are acc of 1980).	umulated	deficits in one	e or more of this unit's un	reserved fund ba	alances/retained	l earnings (P.A
Yes	√ No	3.		e are ins nded).	tances of	non-complian	ce with the Uniform Acco	ounting and Bud	geting Act (P.A	. 2 of 1968, a
Yes	√ No	4.	The requi	local unit rements,	has viola or an orde	ated the cond or issued unde	litions of either an order or the Emergency Municipa	issued under th I Loan Act.	e Municipal Fin	ance Act or it
Yes	√ No	5.	The as ar	local unit nended [l	holds dep MCL 129.9	oosits/investm 11], or P.A. 55	ents which do not comply of 1982, as amended [MC	with statutory r L 38.1132]).	equirements. (F	P.A. 20 of 1943
Yes	√ No	6.	The I	local unit	has been o	delinquent in d	distributing tax revenues th	at were collected	I for another tax	ring unit.
Yes	√ No	7.	pens	ion benef	lits (norma	I costs) in the	titutional requirement (Artie current year. If the plan requirement, no contribution	is more than 10	0% funded and	the overfundin
Yes	√ No	8.		local unit L 129.241		dit cards and	has not adopted an app	licable policy as	required by P.	A. 266 of 199
Yes	✓ No	9.	The	local unit	has not ad	lopted an inve	estment policy as required	by P.A. 196 of 19	997 (MCL 129.9	5).
We have e	enclosec	l the	follo	wing:				Enclosed	To Be Forwarded	Not Required
The letter					ndations.		PAGE 56	✓		
Reports of	n individu	ual fe	deral	financial	assistance	programs (p	rogram audits).			✓
Single Aud	dit Repor	ts (A	SLG	J).		*****	, , , , , , , , , , , , , , , , , , , ,			√

Certified Public Accountant (Firm Name) BERTHIAUME & COMPANY, CPAS			
Street Address 60 HARROW LANE	City SAGINAW	State MI	48603
Accountant Signature 15 enough 0- Sentina	uni	Date	-15-04

CITY OF STANTON

Montcalm County, Michigan

FINANCIAL STATEMENTS



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Commission City of Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Stanton, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Stanton's, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

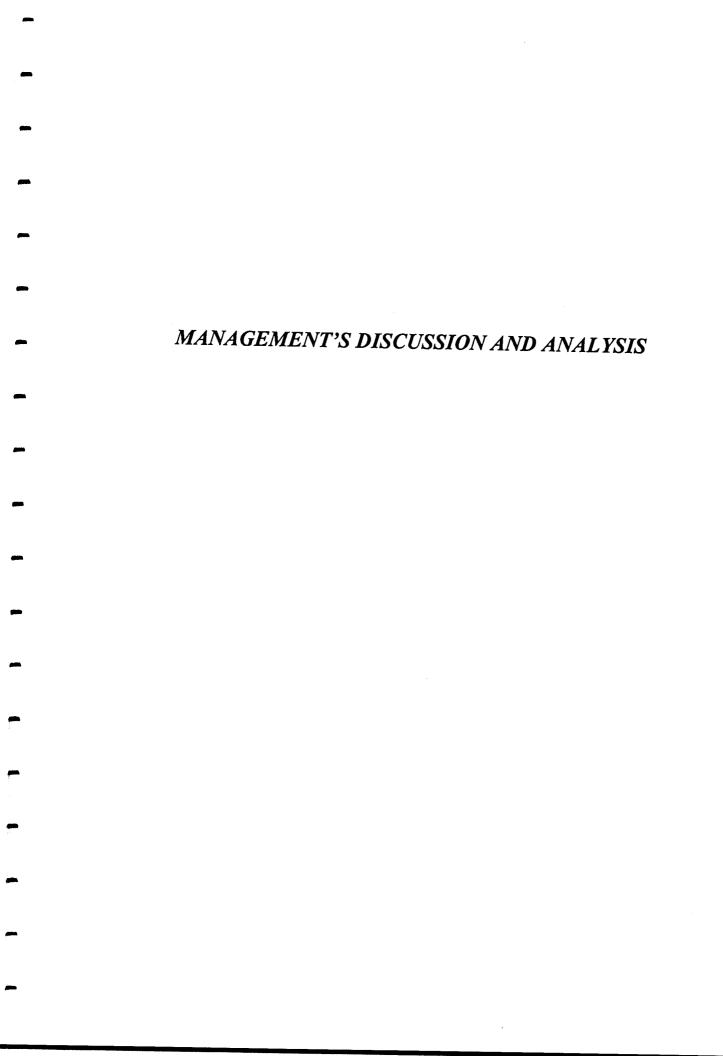
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Stanton, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stanton's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and related statements, as of July 1, 2003.

Settheaume & Co.



MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004

Overview of the Financial Statements:

The 2004 financial statements of the City of Stanton follow a different format than in previous years. These financial statements have been changed to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Financial Statements:

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

Government Activities – Most of the City's basic services are included here, such as the public safety, public works, and recreation departments, and general administration. Property taxes, State-shared revenue, charges for services, grants, and transfers provide much of the funding.

Business-type Activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems are included here.

Component Unit - The City includes the Downtown Development Authority in its report.

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Government Funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

June 30, 2004

Proprietary Funds – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like government-wide statements, provide both short-and long-term financial information.

Fiduciary Funds – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Highlights:

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$6,358,822 (net assets), an increase of \$291,685 from the previous year. Of the \$6,358,822 reported in net assets, approximately \$1,985,155 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.
- Net assets of our governmental activities increased \$314,345, or 12.6 percent, while net assets of our business-type activities decreased \$22,660, or 0.6 percent.
- Unrestricted net assets for governmental activities exceed expenses. Unrestricted net assets for business-type activities exceed expenses.
- The General Fund reported revenues in excess of expenditures of \$13,418 for the year. This resulted in a year end fund balance of \$722,907. Of this amount, \$722,907 is unreserved and undesignated, or 173.1 percent of General Fund expenditures.
- The City's total debt decreased by \$235,000 during the current fiscal year. Of this amount \$50,000 was as a result of annual debt service requirements and \$185,000 was a payoff of a bond.

The City as a Whole:

The City's combined net assets are \$6,358,822 at June 30, 2004. Business-type activities make up \$3,541,344 and governmental activities make up \$2,817,478 of the total. Future reports will provide an analysis of comparative data from the statement of net assets and statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative condensed statement of net assets and condensed statement of activities are not part of the management's discussion and analysis.

City of Stanton - Net Assets:

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$6,358,822 (net assets). However, a major portion (60 percent) of the City's net assets represents its investment in capital assets (e.g., land, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for spending.

Unrestricted net assets of the City decreased from \$2,056,209 at June 30, 2003 to \$1,985,155 at the end of this year. This amount represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Furthermore, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

June 30, 2004

The following table shows the changes in net assets for 2004:

CITY OF STANTON - CHANGES IN NET ASSETS

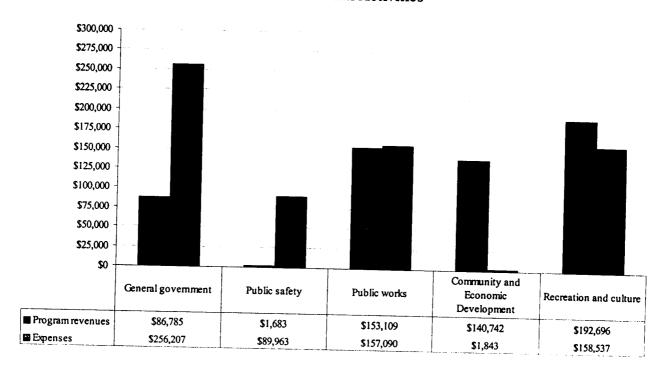
Revenues:	Governmental <u>Activities</u>		Business-type Activities			Total
Program revenues:						
Charges for services	•	1550				
Operating grants and contributions	\$	157,319	\$	257,948	\$	415,267
Capital grants and contributions		286,059		-		286,059
General revenues:		131,637		-		131,637
Property taxes		104 ***				
Franchise taxes		196,530		-		196,530
Grants and contributions not restricted to specific programs		1,641		-		1,641
Investment earnings		165,477		-		165,477
Tower Rental		11,377		7,177		18,554
Gain on sale of assets		6,930		-		6,930
Transfers		21,015		-		21,015
				-		
Total revenues		977,985	•	265,125	1	,243,110
Expenses:						
General government		256,207				
Public safety		89,963		-		256,207
Public works		157,090		-		89,963
Community and economic development		1,843		-		157,090
Recreation and culture		158,537		-		1,843
Sewer		130,337		-		158,537
Water		•		157,509		157,509
				130,276		130,276
Total expenses		663,640		287,785		951,425
Change in net assets		314,345		(22,660)		291,685
Net assets, beginning of year	2,	503,133	_ 3	3,564,004		067,137
Net assets, end of year		817,478		,541,344		358,822

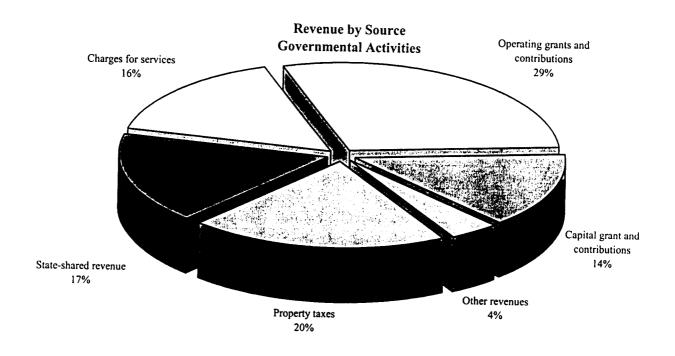
Governmental Activities:

For the year ended June 30, 2004, revenues for the City's governmental activities totaled \$977,983. Property taxes accounted for 20 percent of the total revenues, or \$196,530. State-shared revenues were 17 percent, or \$165,477; these revenues continue to be a concern as to future funding levels.

June 30, 2004

Expenses and Program Revenues Governmental Activities



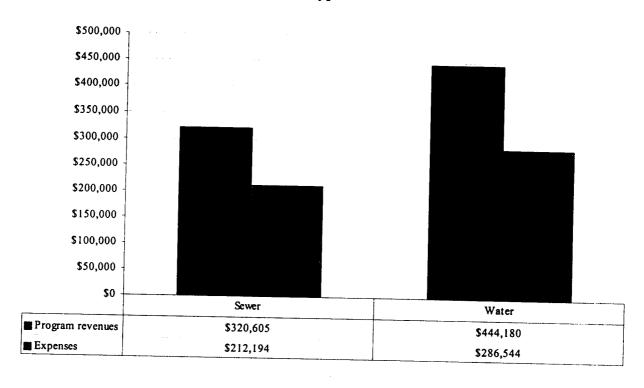


June 30, 2004

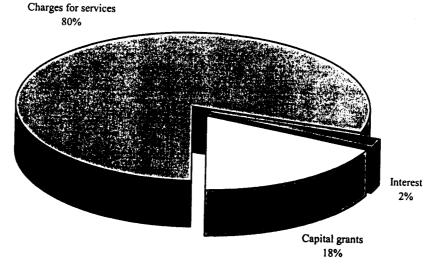
Business-type Activities:

For the year ended June 30, 2004, revenues for business-type activities were \$265,125. Charges for services were 97 percent of gross revenues, or \$257,948. Investment earnings were 3 percent of gross revenues, or \$7,177.

Expenses and Program Revenues Business-type Activities



Revenue by Source Business-type Activities



June 30, 2004

The City has two business type-activities: the sewer and water systems. In total, these two activities generated \$257,948 in charges for services, and incurred \$287,785 in expenses. In addition, general revenues for business-type activities were \$7,177. The City's business-type activities experienced an decrease in net assets of \$22,660 for the year.

Capital Assets and Debt Administration:

At the end of the fiscal year 2004, the City has \$6,273,383 invested, before depreciation, in a wide range of capital assets, including land, land improvements, buildings and improvements, equipment, and sewer and water distribution systems. In addition, for the first time, the City is reporting infrastructure assets if any were acquired since July 1, 2003. Infrastructure assets include roads, bridges, sidewalks, storm drains, and other immovable assets. The value of the infrastructure assets, net of depreciation, contained in this report is \$0 at June 30, 2004.

Debt related to the water system totaling \$555,000 is recorded as a liability in the business-type activities in the statement of net assets. Proceeds from this debt were used for the water supply system.

The City's Funds:

The fund financial statements provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities. The City's major governmental funds for 2004 include the General Fund, Major Street Fund, Local Street Fund, and Library Fund.

The City's governmental funds reported combined fund balance of \$1,666,704 for this year, a increase of \$105,867 from last year.

Budgetary Highlights:

Differences between the original and final amended budgets for the General Fund, Major Street Fund, Local Street Fund Library Fund, and Cemetery Fund revenues and expenditures were relatively minor. Differences between the original and final amended budget were relatively minor except for the General Fund amendment for capital outlay. This was due to the property purchased during the year.

Economic Factors:

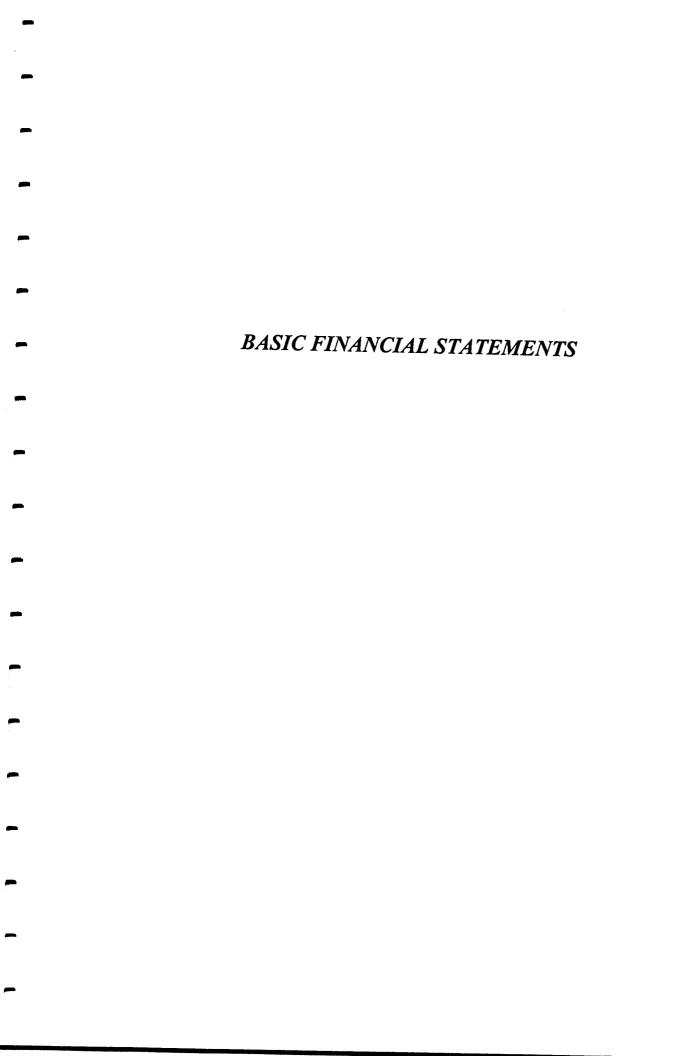
The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has remained flat, resulting in small increases in property taxes; the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In comparison, certain expenses continue to rise at a rate higher than inflation (e.g., health care).

We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while still providing the City's residents with the same level of service to which they have become accustomed.

June 30, 2004

Contacting the City's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Janet Miller, City Clerk, 225 South Camburn Street, Stanton, Michigan 48888.



STATEMENT OF NET ASSETS

	Canan				Primary Government					
				iness-type			-	Component		
	_Activ	ities		ctivities	_	Total	_	Units		
Assets:										
Cash and cash equivalents	\$ 1.7	15,866	\$	571,183	\$	2 207 040	e	0.00		
Receivables		40,280	Ψ	70,023	Þ	2,287,049	\$	95,406		
Restricted cash and cash equivalents	-	-		59,938		210,303		-		
Capital assets:				33,330		59,938		-		
Nondepreciable capital assets	10	6,569		4,765		111 224				
Depreciable capital assets, net		57,531		3,405,364		111,334		-		
Total assets						4,272,895				
Your assets	2,83	0,246		4,111,273		6,941,519	_	95,406		
Liabilities:										
Accounts payable										
and accrued expenses		6,503		14.020		21.125				
Long-term liabilities:		0,505		14,929		21,432		5,817		
Due within one year				20.000		•••				
Due in more than one year		6,265		20,000		20,000		65,000		
Total liabilities				535,000	_	541,265	_	380,000		
1 out Habilities	1	2,768		569,929		582,697		450,817		
Net assets:										
nvested in capital assets,										
net of related debt	974	4,100	2	,855,129		2 020 222				
Restricted for:	7,	,,100	2	,033,129		3,829,229		-		
Nonexpendable Purposes										
Perpetual Care	14	5,259				45.050				
Expendable Purposes	7.	,,237		-		45,259		-		
Debt service		_		50.020		50.000				
Streets	//30	,241		59,938		59,938		-		
Inrestricted	1,358	•		-		439,241				
Total net assets				626,277		1,985,155		(355,411)		
i otal liet assets	\$ 2,817	,478	3,	541,344	\$	6,358,822	\$	(355,411)		

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

				Program Revenues					
	1	Expenses	-	Charges for Services	(Operating Frants and Intributions		Capital Frants and Intributions	
Functions/Programs									
PRIMARY GOVERNMENT:									
Governmental activities:									
General government	\$	256,207	\$	86,785	\$	-	\$	_	
Public safety		89,963		551		1,132	•	_	
Public works		157,090		43,187		109,922			
Community and economic development Recreation and culture		1,843		12,479		-		128,263	
-		158,537		14,317		175,005		3,374	
Total governmental activities		663,640		157,319		286,059		131,637	
Business-type activities:									
Sewer		155 500							
Water		157,509		130,769		-		•	
		130,276	-	127,179		<u> </u>			
Total business-type activities		287,785		257,948					
Total primary government	\$	951,425	<u>\$</u>	415,267	<u>\$</u>	286,059	\$	131,637	
COMPONENT UNITS:									
Downtown development authority	e	04.045	•						
admonty	\$	84,945	\$	-	\$	_	<u>\$</u>	-	
	Gener	ral revenues	s:						
	Tax	es:							
	\mathbf{P}_{1}	roperty taxe	s, le	vied for gen	eral r	ourpose			
	Pi	roperty tax	capti	ure	•	•			
		ranchise tax							
	Gra	nts and con	tribu	tions not res	tricte	d to			
	sp	ecific prog	rams	- Sales Tax					
	Unr	estricted in	vestr	nent earning	S				
	Tow	er rental							
	Gair	n on sale of	capi	tal asset					
	Trar	sfers							
	Tota	l general re	veni	ies					
	Char	nge in net a	ssets						
	Net as:	sets, beginn	ing o	of year					
		sets, end of							

Net (Expense) Revenue and Changes in Net Assets Primary Government							
		Business-	·				
Go	vernment			Componen			
	Activities	Activities	Total				
\$	(169,422 (88,280 (3,981 138,899))	\$ (169,4 (88,2 (3,9 138,8	280) 281)			
	34,159		34,1				
	(88,625)		(88,6				
	(88,625)	\$ (26,740 (3,097) (29,837) (29,837)	(3,0) (29,8)	97) 37)			
	196,530	-	196,53				
	-	-	-	179,853			
	196,530 - 1,641	-	196,53 - 1,64	179,853			
	1,641	-	1,64	179,853			
	-	- - - 7.177	1,64 165,47	179,853 -1 - 7 -			
	1,641 165,477	- - - 7,177	1,64 165,47 18,55	179,853 -1 - 7 - 4 604			
	1,641 165,477 11,377	- - - 7,177 -	1,64 165,47 18,55 6,93	179,853 -1 - 7 - 4 604 0 -			
	1,641 165,477 11,377 6,930	- - - 7,177 - -	1,64 165,47 18,55	179,853 -1 - 7 - 4 604 0 -			
	1,641 165,477 11,377 6,930	7,177 - - 7,177	1,64 165,47 18,55 6,93	179,853 -1 - 7 - 4 604 0 - 5 -			
	1,641 165,477 11,377 6,930 21,015	-	1,64 165,47 18,55 6,93 21,01	179,853 -174 604 -57 180,457			
	1,641 165,477 11,377 6,930 21,015 - 402,970	7,177	1,64 165,47 18,55 6,93 21,01	179,853 1 - 7 - 4 604 0 - 5 - 7 180,457 5 95,512			

GOVERNMENTAL FUNDS

BALANCE SHEET

Assets:	General Fund	Major Street Fund	Local Street Fund	Library Fund	Other Non-Major Governmental Funds	Total Governmental <u>Funds</u>
Cash and cash equivalents Taxes receivable Accounts receivable Due from other governmental units	\$ 666,171 347 6,936 53,572	\$ 346,772 - -	\$ 73,800	-	\$ 60,297 -	\$ 1,535,925 347 6,936
Total assets	\$ 727,026	12,429 \$ 359,201	6,240 \$ 80,040		\$ 60,297	129,985 \$ 1,673,193
Liabilities and Fund Balances: Liabilities: Accounts payable						
and accrued expenses Total liabilities	\$ 4,119	<u> </u>	<u>\$</u>	\$ 2,354	<u>\$ 16</u>	\$ 6,489
	4,119		-	2,354	16	6,489
Fund Balances: Unreserved: Undesignated, reported in:						
General fund Special revenue funds Permanent Fund	722,907	359,201	80,040 	- 444,275 -	15,022 45,259	722,907 898,538 45,259
Total fund balances Total liabilities and	722,907	359,201	80,040	444,275	60,281	1,666,704
fund balances	\$ 727,026	\$ 359,201	\$ 80,040	\$ 446,629	\$ 60,297	\$ 1,673,193

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

Total fund balances for governmental funds		\$	1,666,704
Total net assets reported for governmental activities in the statement of net assets is different different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:			
Land Buildings and additions Site improvements Less: accumulated depreciation	106,569 791,844 118,269 (116,205)		900,477
Long-term liabilities applicable to the Government's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities - both current and long-term - are reported in the statement of net assets. Balances as of June 30, 2004 are as follows:			
Compensated absences payable	(6,265)		(6,265)
The Internal Service Fund (Motor Pool) is included as part of governmental activities			256,562
Net assets of governmental activities		<u>\$</u>	2,817,478

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2004

		General Fund		Major Street Fund	 Local Street Fund		Library Fund		Other Non-Major overnmental Funds	Total Governmen Funds	ntai
Revenues:									1 47.63	runas	
Property Taxes	\$	196,53		-	\$ -	- \$		\$	_	\$ 196,	53(
Licenses and permits State grants		3,32		-		-		-	_	,	320
Contributions from other units		166,60		73,203	36,719	9	12,06	5	-	288,	
Charges from services		10,80		-		-	166,314	ļ	-	177,	
Fines and forfeits		36,60		-		-		-	4,889	41,4	
Interest and rents		55		-		•		•	-		551
Other revenue		12,94		1,480	355	5	1,595	i	1,137	17,5	
Other revenue	-	3,57	<u> </u>		 	<u> </u>	14,043	_	2,000	19,6	
Total revenues		430,92	<u> </u>	74,683	 37,074	<u> </u>	194,017		8,026	744,7	
Expenditures:											
Current:											
General government		88,078	3	_							
Public safety		81,495		-	-		-		6,942	95,0	
Public works		82,469		19,637	42,913		-		-	81,4	95
Community and economic		•		15,057	72,713		-		-	145,0	119
development		500)	_							
Recreation and culture		4,021		_	_		- 145,615		-		00
Other		79,487		_	_		143,013		-	149,6	
Capital outlay		81,457		_	_		6,244		-	79,4	
Total expenditures		417,507		19,637	 42,913	-	151,859	••••		87,70	
Excess (deficiency) of					 		131,039		6,942	638,8	<u>58</u>
revenues over expenditures		13,418		55,046	(5,839)		42,158		1.004		
					 (3,037)	_	42,138		1,084	105,86	<u>67</u>
Other financing sources (uses):											
Transfers in		-		_	_				1.006		
Transfers out		_		_	_		•		1,096	1,09	
Total other financing					 				(1,096)	(1,09	96
sources and (uses)											
(acca)					 -				<u> </u>		
Net change in fund balances		13,418		55,046	(5,839)		42,158		1,084	105,86	.7
Fund balances - beginning of									.,	105,60	.,
year - Restated		709,489		304,155	85,879		402 117		£0.10#		
Fund balances - end of year			•		 		402,117		59,197	1,560,83	<u>7</u>
and or year	Φ	722,907	Þ	359,201	\$ 80,040	\$	444,275	\$	60,281 \$	1,666,704	4

The Notes to the Financial Statements are an Integral Part of this Statement.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balances - total governmental funds	\$	105,867
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense		
Capital outlay		(10,082)
Contribution of Capital assets from the Downtown Development Authority		80,000
de Captair assets from the Downtown Development Authority		128,263
Some expenses reported in the statement of activities do not require the use of current and financial resources therefore are not reported as expenditures in governmental funds. Change in compensated absences payable		375
The Internal Service Fund (Motor Pool) is also included as governmental activities in the statement of activities		
		9,922
Change in net assets of governmental activities	<u>\$</u>	314,345

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2004

	Мај	ior Enterprise	Funds	Government Activities
Assets:	Sewer Fund	Water Fund	Total	Internal Service
Current assets:				
Cash and cash equivalents Accounts receivable	\$ 176,713 24,183		,	\$ 179,941 3,012
Total current assets	200,896	440,310		182,953
Noncurrent assets:				
Restricted cash and cash equivalents Capital assets:	-	59,938	59,938	-
Depreciable capital assets, net	_2,594,320	815,809	3,410,129	73,623
Total noncurrent assets	2,594,320	875,747		73,623
Total assets	2,795,216	1,316,057	4,111,273	
Liabilities: Current liabilities: Accounts payable				
and accrued expenses Current portion of long-term debt	2,451	12,478 20,000	14,929 20,000	14
Total current liabilities	2,451	32,478	34,929	14
Noncurrent liabilities:				
Long-term debt	•	535,000	535,000	-
Total noncurrent liabilities		535,000	535,000	•
Total liabilities	2,451	567,478	569,929	14
Net assets: invested in capital assets, net of related debt				
Restricted for:	2,594,320	260,809	2,855,129	73,623
Debt service Inrestricted	- 198,445	59,938 427,832	59,938 626,277	
Total net assets	0.0.00.00.00	\$ 748,579	\$ 3,541,344	182,939 \$ 256,562

The Notes to the Financial Statements are an Integral Part of this Statement.

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2004

	Major Enterprise Funds						Governmental Activities		
		Sewer		Water				Internal	
		Fund		Fund		Total	S	ervice Fund	
Operating revenues:									
Charges for services	\$	127,762	2 5	124,6	29	\$ 252,391	. .	12,784	
Penalties		3,007	<u>'</u>	2,5.	<u>50</u>	5,557		-	
Total operating revenues		130,769	<u> </u>	127,1	<u>79</u>	257,948		12,784	
Operating expenses:									
Personnel		13,219		16.50					
Fringe benefits				16,58		29,804		-	
Supplies		1,009		1,22		2,236		-	
Contracted services		406		43	-	845		4,252	
Administrative expense		10,502		14,22		24,724		-	
Telephone		15,000		12,00	0	27,000		•	
Printing and publishing		-		6,13	5	6,135		-	
Utilities		-		54	0	540		-	
		18,112		10,47	3	28,585		-	
Repair and maintenance		1,911		9,70	0	11,611		1,017	
Equipment rental		1,633		1,82	9	3,462		-	
Other services and supplies		-		-		-		261	
Depreciation		72,068		28,79	2	100,860		19,145	
Total operating expenses		133,860		101,942	2_	235,802		24,675	
Operating income (loss)		(3,091)		25,23	7_	22,146	 -	(11,891)	
Non-operating revenues									
(expenses):									
Interest income		3,396		3,781		7,177		500	
Other revenue		-,		5,761		7,177		798	
Interest expense		(23,649)		(28,334		(51,983)		21,015	
Total non-operating									
revenues (expenses)		20,253)		(24,553) _	(44,806)		21,813	
Net income (loss) before									
operating transfers	(23,344)		684		(22,660)		9,922	
Net income (loss)	(23,344)		684	_	(22,660)		9,922	
Net assets, beginning of year,								_	
as restated	2,8	16,109		747,895	_	3,564,004		246,640	
Net assets, end of year	\$ 2,79	92,765	\$	748,579		3,541,344		256,562	

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

	Bus	ivities	Governmenta Activities	
	Sewer Fund	Water Fund	Total	Internal Service
Cash flows from operating activities: Cash received from customers Cash payments to employees Cash payments to suppliers for goods and services Net cash provided (used) by operating activities	\$ 161,895 (13,219) (63,303) 85,373	· /· · · · /	· ,,	\$ 9,772 (5,516) 4,256
Cash flows from capital and related				
financing activities: Acquisition and construction of capital assets				
Principal payments Interest paid Amortization of deferred financing costs	(215,000) (23,649)	(20,000) (28,334)	(235,000) (51,983)	(28,943) - -
Net cash provided by capital	8,952		8,952	
and related financing activities	(229,697)	(48,334)	_(278,031)	(28,943)
Cash flows from investing activities: Interest received	2.206			
Net cash provided by investing activities	3,396	3,781	7,177	798
Net increase (decrease) in cash and cash equivalents	(140,928)	<u>3,781</u> 9,934	7,177 (130,994)	<u>798</u> (23,889)
Cash and cash equivalents, beginning of year	317,641	444,474	762,115	ŕ
Cash and cash equivalents, end of year			\$ 631,121	<u>203,830</u> \$ 179,941

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

	Agency Funds
Assets: Cash and cash equivalents Total assets	\$ 11,356 11,356
Liabilities: Accounts payable and accrued expenses Dues to other funds Total liabilities	4,420 6,936
Net Assets: Unrestricted	11,356
Total net assets	<u> </u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Stanton was incorporated in 1863 and is located in Montcalm County, Michigan. The City is organized under Michigan's Comprehensive Home Rule City Act. City government is directed by a seven member City Commission, including a Mayor, elected by the community at large. The City provides the following services to approximately 1,500 residents as authorized by its charter. Public safety (police and fire), highways and streets, sanitation, health and social services, culture - recreation, public improvements, planning and zoning, and general administrative services. The accounting policies of the City of Stanton conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Unit - The component unit columns in the combined financial statements include the financial data of the City's component unit. The unit is reported in a separate column to emphasize that it is legally separate from the City. The component unit is described as follows:

Downtown Development Authority - The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Basis of Presentation - Fund Accounting:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Basis of Accounting:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

June 30, 2004

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related

program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net assets resulting from current year activities.

FUND FINANCIAL STATEMENTS:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

June 30, 2004

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to accounted for in another fund.

Major Street Fund – The Major Street Fund is used to account for the maintenance and construction of the City's major street system.

Local Street Fund - The Local Street Fund is used to account for the maintenance and construction of the City's local street system.

Library Fund - The Library Fund is used to account for earmarked revenue set aside for library purposes.

The City reports the following major enterprise funds:

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Water Fund – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property Taxes – Properties are assessed as of December 31. The related property taxes are billed on the following July 1, are due on September 14, and become a lien on December 1 with the final collection date of February 14 before they are added to the county tax rolls.

The 2003 taxable valuation of the City totaled \$ 1,890,359, on which ad valorem taxes levied consisted of 12.7436 mills for the City's operating purposes.

The delinquent real property taxes of the City are purchased by Montcalm County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both government-wide and fund financial statements.

June 30, 2004

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-100 years
Vehicles	5-50 years
Furniture and other equipment	5-15 years

Compensated Absences – It is the City's policy to permit employees to accumulate earned but unused sick days. Under the City's policy, employees earn 20% to 50% of unused hours based on amount of hours accumulated for those with over ten years of employment. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

June 30, 2004

Accounting Change:

GASB Statement No. 34 - Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments. Changes to the financial statements as a result of GASB No. 34 are as follows:

A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been included.

Government-wide financial statements prepared using full accrual accounting for all of the City's activities has been provided.

Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$702,296 previously reported in the General Fixed Assets Account Group. Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by \$(148,855) to reflect the historical cost of the City's capital assets at that date. In addition, the governmental activities column includes long-term obligations (compensated absences) totaling \$6,640 previously reported in the General Long-term Debt Account Group.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. The City Clerk submits to the City Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
- 2. A public hearing is conducted to obtain taxpayer comments.
- 3. Prior to July 1, the budget is legally enacted by adoption of the City Council.
- 4. Any revision that alters the total expenditures of any fund must be approved by the City.
- 5. Formal budgetary integration is employed as a management control device during the year for all
- 6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
- 7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures Over Appropriations in Budgeted Funds:

During the year, the City did not incur any expenditures that were in excess of the amounts budgeted.

June 30, 2004

NOTE 3: DEPOSITS AND INVESTMENTS

The City's deposits and investments at June 30, 2004 are included in the statement of net assets under the following categories:

Cash and cash equivalents Restricted Cash and Equivalents	Governmental <u>Activities</u> \$ 1,715,866 \$ 1,715,866	Business-type	Total Primary <u>Government</u> \$ 2,287,04959,938 \$ 2,346,987	Component <u>Unit</u> \$ 95,406 \$ 95,406
---	--	---------------	---	---

Deposits:

The deposits for the City are as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit) Total	Government	<u>Unit</u>		
and certificates of deposit)	\$ 2,563,422	\$ 96,565		
Total	\$ 2,563,422	\$ 96,565		

The deposits of the primary government and component unit were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$2,659,987 of which \$380,990 is covered by federal depository insurance and the remainder was uninsured and uncollaterized. The City believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories. To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool.

Investments:

State statutes authorize the City to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repuchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a City.

June 30, 2004

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City had no investments.

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

The ordinance authorizing issuance of the Water and Sewer Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Receiving Account - All receipts are initially deposited into this account.

Operation and Maintenance Account - Quarterly transfers are to be made to cover upcoming operating expenses.

Bond and Interest Redemption Account - Quarterly transfers are to be made equal to 1/2 of the next interest payment due plus 1/4 of the next principal payment due.

Water Bond Reserve Account - All excess funds are to be transferred to this account until \$48,000 is

Sewer Bond Reserve Account - Excess funds are to be transferred to this account until \$25,500 is accumulated.

At June 30, 2004, the City had established these accounts and had restricted cash, as required, as follows:

	 June 30, 2003	quirements Additions Deletions)	•	June 30, 2004	<u>Ca</u>	Amount Funded in Restricted <u>sh Balance</u> June 30, 2004
SEWER FUND						
Bond and interest redemption account Bond reserve account	\$ 24,865 25,500	\$ (24,865) (25,500)	\$	-	\$	-
WATER FUND	 50,365	(50,365)		-		
Bond and interest redemption account Bond reserve account	12,188 48,000	(250)		11,938 48,000		11,938 48,000
	 60,188	 (250)		59,938		59,938
	\$ 110,553	\$ (50,615)	\$	59,938	\$	59,938

June 30, 2004

NOTE 5: CAPITAL ASSETS

Capital assets activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ -	\$ 106,569	\$ -	106 560
Capital assets being depreciated:			Ψ	106,569
Land improvements	66,576	51,694	_	118,270
Buildings and improvements	746,174	50,000	-	796,174
Equipment	71,965	-	_	71,965
Vehicles	164,513	49,959	38,583	175,889
Subtotal	1,049,228	151,653	38,583	1,162,298
Accumulated depreciation:				
Land improvements	20,607	2,664		22.251
Buildings and improvements	89,847	7,418	-	23,271
Equipment	65,096	2,777	-	97,265
Vehicles	128,573	16,368	38,583	67,873
				106,358
Subtotal	304,123	29,227	38,583	294,767
Net capital assets being depreciated	745,105	122,426		867,531
Net governmental capital assets	\$ 745,105	\$ 228,995	\$ -	\$ 974,100

	Balance July 1, 2003	_Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type activities:				
Sewer capital assets:				
Capital assets not being depreciated:				
Land	\$ 4,765	\$ -	\$ -	\$ 4,765
Capital assets being depreciated:			<u> </u>	<u>\$ 4,765</u>
Equipment	85,715	_		05 81 6
Distribution system	_3,590,794	_	-	85,715
Subtotal	3,676,509	_		3,590,794 3,676,509
Accumulated depreciation:				
Equipment	85,715	_		05.516
Distribution system	929,171	72,068	-	85,715
Subtotal	1,014,886	72,068		1,001,239 1,086,954
Net sewer assets being depreciated	2,661,623	(72,068)	-	2,589,555
Net sewer capital assets	2,666,388	(72,068)		2,594,320
Water capital assets:				-
Capital assets being depreciated:				
Land improvements	72,718	_		72 710
Equipment	28,605		-	72,718
Distribution system	_1,332,253	-	_	28,605
Subtotal	1,433,576	-		1,332,253 1,433,576
Accumulated depreciation:				
Land improvements	38,843	1,454		40.207
Equipment	28,605	-	-	40,297
Distribution system	521,527	27,338	<u>-</u>	28,605
Subtotal	588,975	28,792	<u> </u>	548,865 617,767
Net capital assets being depreciated	844,601	(28,792)	_	815,809
Net water capital assets	844,601	(28,792)	_	815,809
Net business-type activities capital assets	\$ 3,510,989			\$ 3,410,129

June 30, 2004

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$	3,994
Public safety	Ψ	8,144
Public works		13,089
Community and economic development		•
Recreation and culture		1,343 2,657
•		2,037
Total governmental activities	\$	29,227
Business-type activities:		
Sewer	\$	72,068
Water	Ψ	
		28,792

NOTE 6: LONG-TERM DEBT

Total business-type activities

The City issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

130,087

June 30, 2004

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Additions Ending Due With Balance (Reductions) Balance One Yea	
Governmental activities: Compensated absences				
Total governmental activities			\$ 6,640 \$ (375) \$ 6,265 \$ 6,640 (375) 6,265	÷
Revenue bonds - 2001 Sewer Revenue Revenue Bonds Amount of Issue - \$255,000 Maturing through October 1, 2009 Revenue bonds - 1981 Water Supply Revenue Bonds Amount of Issue - \$816,000 Maturing through February 1, 2021 Total business-type activities Total governmental and business-type activities	4.4% 5.0%	\$30,000-15,000 20,000-40,000	\$ 215,000 \$ (215,000) \$ - \$ - 575,000 (20,000) 555,000 20,000 790,000 (235,000) 555,000 20,000 \$ 796,640 \$ (235,375) \$ 561,265 \$ 20,000	<u>o</u>
Component units: General Obligation - 1994 Downtown Development Limited Tax Bonds	Interest <u>Rate Ranges</u>	Principal Maturity <u>Ranges</u>	Due Beginning Additions Ending Within <u>Balance (Reductions)</u> <u>Balance</u> <u>One Year</u>	
Amount of Issue - \$800,000 Maturing through 2010 Total component units	5.5-5.9%	\$60,000-85,000	\$ 505,000 \$ (60,000) \$ 445,000 \$ 65,000 \$ 505,000 \$ (60,000) \$ 445,000 \$ 65,000	•

June 30, 2004

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

Year Ended	Bı	isiness-type Activ	ities		Component Units	2
June 30,	Principal	Interest	Total	Principal	Interest	Total
2005 2006 2007 2008 2009 2010-2014 2015-2019 2020-2024	\$ 20,000 25,000 25,000 25,000 25,000 160,000 195,000 80,000 \$ 555,000	26,750 25,500	\$ 47,750 51,750 50,500 49,250 48,000 253,500 244,750 86,000 \$ 831,500	\$ 65,000 70,000 70,000 75,000 80,000 85,000 - - \$ 445,000	\$ 25,630 21,990 18,035 14,045 9,695 5,015 - - \$ 94,410	\$ 90,630 91,990 88,035 89,045 89,695 90,015 - - \$ 539,410

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	Governmental <u>Activities</u>		Business-typeActivities	
Receivables Taxes Accounts Intergovernmental	\$	347 9,948 129,985	\$	70,023
Total receivables	\$	140,280	\$	70,023
Accounts payable and accrued expenses Accounts Payroll and related liabilities Interest Intergovernmental	\$	4,653 1,850 -	\$	3,366 - 11,563
Total accounts payable and accrued expenses	\$	6,503	\$	14,929

June 30, 2004

NOTE 8: REFUNDING BONDS/DEFERRED FINANCING COSTS

During the year 2000-2001 the City paid off its 1989 Sewer Revenue Bonds. To accomplish this payoff, sewer fund cash reserves were utilized, along with \$255,000 of proceeds from a 2001 sewer fund refunding bond issue.

The interest rate on the new 2001 refunding bonds is 4.40% payable through 2009.

The interest rate on the 1989 bond issue was 6% payable through November 2025.

The net savings of bond payments is as follows:

Remaining principal and interest payments on the 1989 before payoff Less: Cash used from reserves to pay off 1989 issue including expenses Less: Remaining principal and interest payments on the new 2001 refunding issue Net reduction of bond payments in future dollars, from the payoff/refunding	\$ 1,388,120 (478,510) (308,207) \$ 601,403
	- 301,105

The refunding costs of \$11,510 are reported as an other asset "Deferred Financing Costs" of the Sewer Fund and will be amortized over the life of the new bond issue. As of June 30, 2004 \$11,510 of these costs have been amortized leaving a balance of \$0. During the fiscal year 2003-2004 the City fully paid off the 2001 Refunding Bonds.

NOTE 9: INTERFUND BALANCES AND TRANSFERS

Interfund transfers reported in the fund statements were as follows:

Funds Transferred From	Funds Transferred To	Am	ount	
Nonmajor governmental funds	Nonmajor governmental funds			
Permanent Fund- Perpetual Care	Special Revenue Fund - Cemetery Fund	<u>\$</u>	1,096	(I)

(I) Earnings used for maintenance of cemetery

June 30, 2004

NOTE 10: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) and certain medical benefits provided to employees.

The City has purchased commercial insurance for medical benefits, participates in the Michigan Municipal League risk pool program for workers' compensation, and participates in the Municipal Risk Management Authority (the "Authority") risk pool program for claims related to general and auto liability, auto physical damage, and property. The Authority operates as a claims servicing pool for amount up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts.

Although funds are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess commercial insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 11: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System):

Plan Description – The White Pine Library participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers the library employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding Policy:

The Library is required to contribute at an actuarially determined rate; the current rate is 1.85% of annual covered payroll. Library employees are required to contribute 3% of their annual covered payroll. The contribution requirements of the Library are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Library, depending on the MERS contribution program adopted by the Library.

June 30, 2004

Annual Pension Costs – For year ended June 30, 2004, the City's annual pension cost of \$3,748 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of June 30, 2004 follows:

Fiscal Year Ended June 30	2004			2003	2002			
Annual pension cost Percentage of APC contributed Net pension obligation	\$	3,748 100% -	\$	4,283 100%	\$	4,440 100%		

Deferred Compensation Plan:

As of December 31, 1993, the City (except Library employees) no longer was a member of the Michigan Municipal Employees Retirement System. A private deferred compensation plan was created in accordance with Internal Revenue Code Section 457, as of July 1, 1992. The plan is available to all full-time employees and it permits tax deferral of a portion of current salary until future years.

The City is required to contribute to the Section 457 plan, an amount equal to three percent (3%) of each eligible employee's annual salary. In addition, the City makes a matching dollar contribution in one percent (1%) increments up to a maximum of two percent (2%). During the year ended June 30, 2004, the City contributed \$6,277 on behalf of the employees under this arrangement.

The City adopted GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, for its primary government. The City has placed all Deferred Compensation Plan assets with a trustee, relinquishing all fiduciary accountability for the assets. Accordingly, the related assets and liabilities of the plan are not reported in the City's financial statements.

Compensated Absences:

City employees receive between 20% to 50% of their accumulated sick days on termination of employment based on the amount of hours accumulated. As of June 30, 2004, a liability for accrued sick pay of \$6,265 is reflected in the financial statements.

Post Employment Benefits:

The City has no post employment benefits plans at this time other than its pension plans.

June 30, 2004

NOTE 12: SEGMENT REPORTING

The City maintains two enterprise funds which provide sewer and water services. Segment information for these funds is as follows:

		<u>Sewer</u>		<u>Water</u>		<u>Total</u>
Total Assets:						
Current assets	\$	200,896	¢.	440.010	_	
Restricted noncurrent assets	Ф	200,890	\$	440,310	\$	641,206
Capital assets, net		2,594,320		9,938		9,938
Total Liabilities:		2,334,320		815,809		3,410,129
Current liabilities		2,451		22 470		
Long-term liabilities		2,431		32,478		34,929
Net assets:		_		535,000		535,000
Invested in capital assets, net of related debt		2,594,320		260,809		2.055.100
Restricted		_,55 ,,520		59,938		2,855,129
Unrestricted		198,445		427,832		59,938
		4,70,710		427,032		626,277
Operating revenues:						
Charges from services		127,762		124 (20		
Penalties		3,007		124,629		252,391
Operating expenses:		3,007		2,550		5,557
Depreciation expense		72,068		20.700		
Other		61,792		28,792		100,860
Operating income (loss)		144,458		73,150		134,942
Nonoperating revenues (expenses):		177,750		103,477		247,935
Interest expense		(23,649)		(20.224)		
Other		3,396		(28,334)		(51,983)
Change in net assets		(23,344)		3,781		7,177
Beginning net assets		2,816,109		684		(22,660)
Ending net assets				747,895		3,564,004
Net cash provided (used) by:		2,792,765		748,579		3,541,344
Operating activities		87,738		66.466		-
Capital and related financing activities		(229,697)		66,466		154,204
Investing activities		3,396		(48,334)		(278,031)
Beginning cash and cash equivalents		317,641		3,781		7,177
Ending cash and cash equivalents		179,078		444,474 466,387		762,115
•		1,7,0,0		400,36/		645,465

June 30, 2004

NOTE 13: RESTATEMENTS OF BEGINNING NET ASSET BALANCES

Prior period adjustments were made as follows:

Corrections of Errors:

	Proprietary Funds					
	Enterprise					
	Sewer Water	er				
Beginning net assets, as previously stated	\$ 2,818,474 \$ 759,	874				
Prior period adjustments:						
Recognition of accrued interest payable on bonds	(2,365) (11,	979)				
Beginning net assets, as restated	\$ 2,816,109 \$ 747,	895				

Change in revenue recognition:

The City changed its method of accounting for State-shared revenue to coincide with the State distribution periods.

	Governmental Fun <u>General</u>						
Beginning net assets, as previously stated	\$	672,987					
Prior period adjustments: Recognition of August and October 2003 distributions of State shared revenue in prior year							
shared revenue in prior year		36,502					
Beginning net assets, as restated	\$	709,489					

June 30, 2004

NOTE 14: COMPONENT UNIT FINANCIAL INFORMATION

Condensed financial statements for the discretely presented unit is presented below. Complete financial statements are not prepared for the Downtown Development Authority.

DOWNTOWN DEVELOPMENT AUTHORITY STATEMENT OF NET ASSETS

June 30, 2004

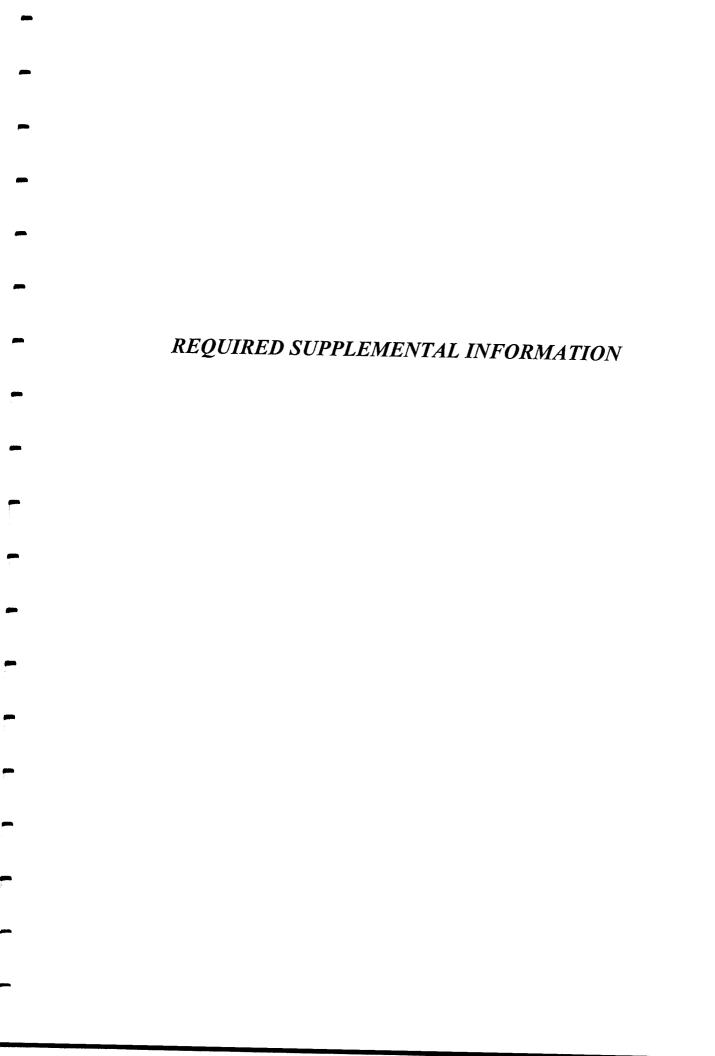
ASSETS:	
Current Assets: Cash and cash equivalents	Ф 05.40 <i>с</i>
Total assets	\$ 95,406 95,406
LIABILITIES AND FUND EQUITY:	
Liabilities:	
Accounts Payable	1.545
Accrued Interest Payable	1,545
Long-Term Liabilities:	4,272
Due within one year	65,000
Due in more than one year	65,000
Total liabilities	380,000
x out madmitted	450,817
Net Assets:	
Unrestricted	(255 411)
Total Net Assets	(355,411)
10tal 14ct A550t5	<u>\$ (355,411)</u>

June 30, 2004

DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES,

	Downtown Development Authority
Revenues:	
Property taxes Interest	\$ 179,853 604
Total revenues	180,457
Expenditures:	
Economic development Debt service: Interest	145,574
Total expenditures	33,232 178,806
Change in net assets	1,651
Net assets, beginning of year	(257.062)
Net assets, end of year	(357,062) \$ (355,411)



BUDGETARY COMPARISON SCHEDULE

	Budgeted Amounts Original Final				-	Actual		Actual er (Under) nal Budget
Revenues:	_							iai Baagei
Property Taxes	\$	179,450	\$	179,450	\$	196,530	\$	17,080
Licenses and permits		2,100		2,100		3,320		1,220
Federal grants		•		-		-		-
State grants		179,000		179,000		166,609		(12,391)
Contributions from other units		10,800		10,800		10,800		-
Charges from services		36,600		36,600		36,600		-
Fines and forfeits		100		100		551		451
Interest and rents		11,600		11,600		12,942		1,342
Other revenue	_	67,200		67,200		3,573		(63,627)
Total revenues	***********	486,850		486,850		430,925		(55,925)
Expenditures:								
General government		130,475		130,475		88,078		(42,397)
Public safety		117,800		117,800		81,495		(42,397) $(36,305)$
Public works		116,450		96,450		82,469		
Health and welfare		-		,,,,,,,		02,709		(13,981)
Community and economic development		500		500		500		-
Recreation and culture		21,050		21,050		4,021		(17,029)
Other		82,100		82,100		79,487		(2,613)
Capital outlay		12,200		82,200		81,457		(743)
Total expenditures		480,575		530,575		417,507		(113,068)
Net change in fund balance		6,275		(43,725)		13,418	-	57,143
Fund balance, beginning as restated		709,489		709,489		709,489		-
Fund balance, ending	\$	715,764	\$	665,764	\$	722,907	\$	57,143

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Revenues:	Budgetee Original	d Amounts Final	Actual	Actual Over (Under) Final Budget
State grants Interest and rents	\$ 64,000 	\$ 64,000 2,000	\$ 73,203 1,480	\$ 9,203 (520)
Total revenues	66,200	66,200	74,683	8,683
Expenditures:				
Public works	27,775	27,775	19,637	(8,138)
Total expenditures	27,775	27,775	19,637	(8,138)
Net change in fund balance	38,425	38,425	55,046	16,821
Fund balance, beginning	304,155	304,155	304,155	_
Fund balance, ending	\$ 342,580	\$ 342,580	\$ 359,201	\$ 16,821

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

	Budgeted Amounts Original Final					Actual	Actual Over (Under) Final Budget		
Revenues:	_								
State grants Interest and rents	\$	30,000 700	\$	30,000 700	\$	36,719 355	\$	6,719	
Other revenue		200		200		-		(345)	
Total revenues		30,900		30,900		37,074		6,374	
Expenditures:									
Public works		45,480		45,480		42,913		(2,567)	
Total expenditures		45,480		45,480	_	42,913		(2,567)	
Net change in fund balance		(14,580)		(14,580)		(5,839)		8,941	
Fund balance, beginning		85,879		85,879		85,879		-	
Fund balance, ending	\$	71,299	\$	71,299	\$	80,040	\$	8,941	

SPECIAL REVENUE FUND – LIBRARY FUND

BUDGETARY COMPARISON SCHEDULE

	Budgeted Amounts Original Final					Actual	Actual Over (Under, Final Budget		
Revenues: State grants Contributions from other units Interest and rents Other revenue Total revenues	\$	7,500 140,000 2,000 8,000	\$	7,500 140,000 2,000 8,000	\$	12,065 166,314 1,595 14,043	\$	4,565 26,314 (405)	
Expenditures:		157,500		157,500		194,017		30,474	
Recreation and culture Capital outlay		141,205 3,000		155,629 7,250		145,615 6,244		(10,014) (1,006)	
Total expenditures Net change in fund balance	774	144,205 13,295		162,879 (5,379)		151,859 42,158	*******	(11,020) 41,494	
Fund balance, beginning or year Fund balance, end of year	\$	402,117 415,412	<u>\$</u>	402,117 396,738	<u>\$</u>	402,117 444,275	<u>\$</u>	41,494	

SPECIAL REVENUE FUND - CEMETERY FUND

BUDGETARY COMPARISON SCHEDULE

	Budgeted Original	d Amounts Final	Actual	Actual Over (Under) Final Budget	
Revenues: Charges from services Interest and rents Other revenue	\$ 4,000 50 500	\$ 4,000 50 500	\$ 4,889 28 1,000		
Total revenues	4,550	4,550	5,917	867	
Expenditures: General government	8,225	8,225	6,942	(1.292)	
Total expenditures	8,225	8,225	6,942	(1,283) (1,283)	
Excess (deficiency) of revenues over expenditures	(3,675)	(3,675)	(1,025)	2,150	
Other financing sources (uses): Transfers in	5,200	5,200	1,096	(4,104)	
Total other financing sources and (uses)	5,200	5,200	1,096	(4,104)	
Net change in fund balance	1,525	1,525	71	(1,954)	
Fund balance, beginning	14,951	14,951	14,951	_	
Fund balance, ending	\$ 16,476	\$ 16,476	\$ 15,022	\$ (1,954)	

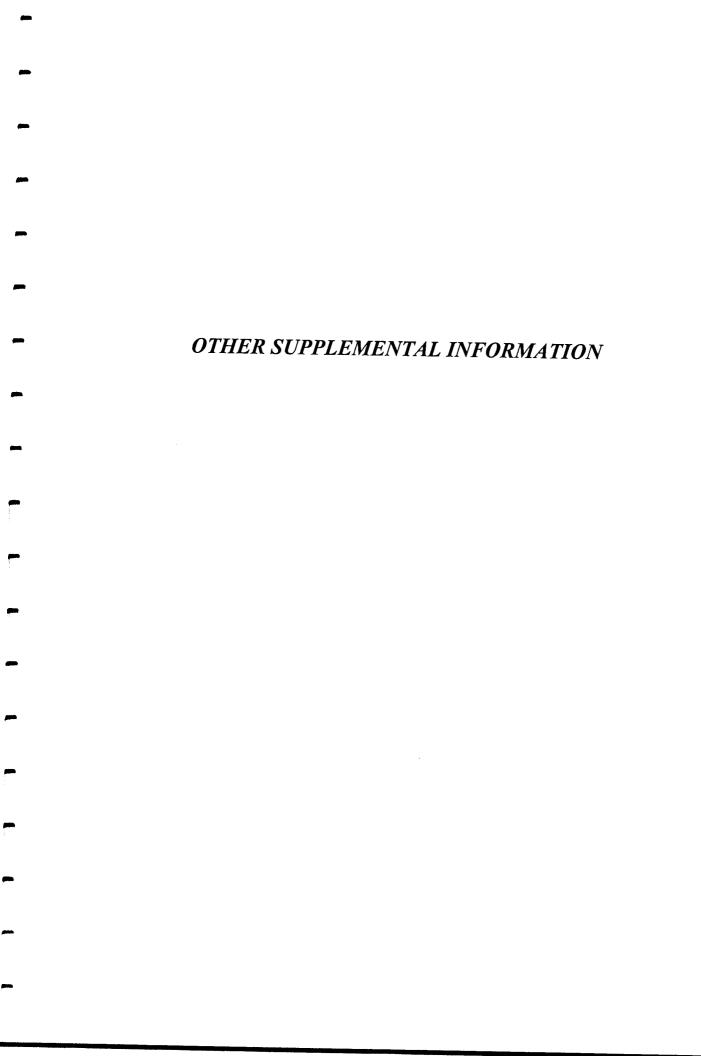
REQUIRED SUPPLEMENTAL INFORMATION

PENSION SYSTEM SCHEDULE OF FUNDING PROGRESS

June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	·	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	U	nderfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as of Percent of Covered Payroll
12/31/03 12/31/02 12/31/01 12/31/00 12/31/99 12/31/98 12/31/97	\$	107,982 107,846 110,701 106,434 98,814 87,573 78,191	\$ 173,967 169,161 159,275 157,192 141,823 136,781 133,737	\$	65,985 61,315 48,574 50,759 43,009 49,208 55,546	62% 64 70 68 70 64 58	\$ 47,059 45,214 46,423 48,051 45,230 43,172 50,100	140% 136 105 106 95 114 72



DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2004

REVENUES:

Current Taxes:	
Property taxes Trailer tax	\$ 185,812
Penalties and interest	783
Administration fee	1,128
Administration Ice	8,807
Licenses and Permits:	196,530
Non-business license and permits	
CATV franchise fees	1,679
CITTY Hallomise rees	1,641
Curr. C	3,320
State Grants: Liquor license fees	
State revenue sharing – sales tax	1,132
State Tevenide Sharing - Sales lax	165,477
	166,609
Contribution from Other Units:	
Stanton Downtown Development Authority – administration charges	10,800
	10,800
Charges for Services:	
Charges to other funds	36,600
	36,600
Fines and forfeitures:	
Other	51
Interest and Rents:	51
Interest	6.012
Rents	6,012 6,930
	
Other Revenue:	12,942
Refunds and rebates	2011
Other	3,011 562

	3,573
Total revenues	\$ 430,925

DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2004

EXPENDITURES:

General Government:

Personnel	
Contracted services	\$ 7,000
Printing and publications	100
Other	1,184
	235
Audit:	8,519
Contracted services	3,911
	3,911
Board of Review:	
Personnel	875
Other	135
	1,010
Clerk/Treasurer:	1,010
Personnel	43,728
Supplies	2,322
Other	2,322
	46,070
Assessor:	
Personal	10,080
Supplies	800
Contracted services Travel/mileage	795
Dues and memberships	251
Dues and memberships	125
Elections:	12,051
Supplies	
Contracted services	611
Printing and publications	448 407
Other	25
	1,491
ldings and Grounds:	1,491
Personnel	1,831
Supplies	3,411
Telephone	2,971
Utilities Position and making the state of t	3,895
Repairs and maintenance Other	2,107
Other	811
	15,026
Total general government	

DETAILED SCHEDULE OF EXPENDITURES, continued

Public Safety:	
* *	
Police:	
Personnel	64,2
Supplies	4,80
Contracted services	28
Other	72
	70,03
Fire:	
Supplies	45
Contracted services	11,00
	11,45
Total public safety	81,49
D 111 *** •	
Public Works:	
Department of Public Works:	
Personnel	35,63
Supplies	6,14
Contracted services	4,80
Printing and publications	1,52
Utilities	65.
Repairs and maintenance	234
Equipment rental	3,630
Other	290
	52,919
Street Lighting:	
Utilities	21,834
Refuse:	21,834
Contracted services	2.717
	2,716
Public Transportation:	2,716
Contracted services	
Contracted Services	5,000
	5,000
Total public works	92.460
	82,469
Community and Economic Development:	
Planning:	
Contracted services	500
Total community and economic development	
A	500

DETAILED SCHEDULE OF EXPENDITURES, continued

Year Ended June 30, 2004

EXPENDITURES, continued:

Recreation and Culture:	
Parks and Recreation:	
Personnel Supplies	2,194
Equipment rental	1,553
Total recreation and culture	274
outuje	4,021
Other:	
Insurance and Bonds:	
Insurance	21,130
Employee Devector	21,130
Employee Benefits: Insurance	
insurance	36,516
Retirement:	36,516
Fringe benefits	
	9,363
Payroll Taxes:	9,363
Payroll taxes	
•	12,478
	12,478
Total other	79,487
Capital Outlay:	
General Government:	
Building & grounds	81,457
Total capital outlay	
·	81,457
Total expenditures	\$ 417,507

NONMAJOR GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2004

	Special Revenue Fund	Permanent Fund		
Assets:	Cemetery Fund	Cemetery Perpetual Care Fund	Total Nonmajor Governmental Funds	
Cash and cash equivalents	\$ 15,038	\$ 45,259	\$ 60,297	
Total assets	\$ 15,038	\$ 45,259	\$ 60,297	
Liabilities and Fund Balances: Liabilities:				
Accounts payable and accrued expenses	\$ 16	\$ -	\$ 16	
Total liabilities	16		16	
Fund Balances: Unreserved:				
Special revenue funds	15,022	-	15,022	
Permanent funds	-	45,259	45,259	
Total fund balances	15,022	45,259	60,281	
Total liabilities and fund balances	\$ 15,038	\$ 45,259	\$ 60,297	

NONMAJOR GOVERNMENT FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Special Revenue Fund Cemetery	Permanent Fund Cemetery Perpetual Care	Total Governmental
D.	Fund	Fund	Funds
Revenues:			***************************************
Charges from services Interest and rents	\$ 4,889	\$ -	\$ 4,889
Other revenue	28	1,109	1,137
	1,000	1,000	2,000
Total revenues	5,917	2,109	8,026
Expenditures:			
General government	6,942		6.042
Capital outlay			6,942
Total expenditures	6,942		6,942
Excess (deficiency) of			
revenues over expenditures	(1,025)	2,109	1,084
Other financing sources (uses):			
Transfers in	1,096	_	1,096
Transfers out	-	(1,096)	(1,096)
Total other financing sources and (uses)	1,096	(1,096)	(1,090)
Net change in fund balance	71	1,013	1,084
Fund balance - beginning	14,951	44,246	59,197
Fund balance - ending			\$ 60,281

FIDUCIARY FUNDS

COMBINING STATEMENT OF NET ASSETS

June 30, 2004

Assets:	Payroll Withholding Fund	Tax Fund	<u> Total</u>
Cash and cash equivalents	\$ 4,420	\$ 6,936	\$ 11,356
Total assets	4,420	6,936	11,356
Liabilities: Accounts payable and accrued expenses Due to other funds Total liabilities	4,420 	6,936	4,420 6,936 11,356
Net Assets: Unrestricted Total net assets	<u> </u>	<u>-</u> \$ -	<u> </u>

FIDUCIARY FUNDS AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

June 30, 2004

	July	1, 2003		Additions		Deductions	_ <u>Jı</u>	ıne 30, 2004
Payroll Withholding Fund	_							
Assets:								
Cash and cash equivalents	\$	4,453	\$	331,770	\$	331,803	\$	4,420
Total assets	\$	4,453	<u>\$</u>	331,770	<u>\$</u>	331,803	\$	4,420
Liabilities:								
Accounts payable and accrued expenses	\$	4,453	\$	331,770	\$	331,803	\$	4,420
Total liabilities	\$	4,453	<u>\$</u>	331,770	\$	331,803	<u>\$</u>	4,420
Tax Fund								
Assets:								
Cash and cash equivalents	\$	1,079	<u>\$</u>	831,902	<u>\$</u>	826,045	\$	6,936
Liabilities:								
Due to other funds	\$	1,079	\$	244,762	\$	238,905	\$	6,936
Due to other governmental units				587,140	•	587,140	Ψ	0,930
Total liabilities	\$	1,079	\$	831,902	\$	826,045	\$	6,936
Total Agency Funds								· · · · · ·
Assets:								
Cash and cash equivalents	\$	5,532	\$_	1,163,672	\$	1,157,848	\$	11,356
Total assets	\$	5,532	\$	1,163,672	<u>\$</u>	1,157,848	\$	11,356
Liabilities:								
Accounts payable and accrued expenses	\$	4,453	\$	331,770	\$	331,803	\$	4,420
Due to other funds		1,079		244,762		238,905		6,936
Due to other governmental units		-		587,140		587,140		
Total liabilities	\$	5,532	<u>\$</u>	1,163,672	\$	1,157,848	<u>\$</u>	11,356



60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

MANAGEMENT LETTER

To the Honorable Mayor and Members of the City Commission City of Stanton, Michigan

We have completed our examination of the financial statements of the City of Stanton for the year ended June 30, 2004, and have issued our report thereon dated September 14, 2004. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The City's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Stanton taken as a whole. Our study and evaluation disclosed no condition that we believe to be material weakness.

This report is intended solely for the use of the City management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination.

Sincerely,

Berthiaume & Company

Certified Public Accountants

Berthiaune & Co.

September 14, 2004